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OCT 23 2013

SECRETARY, BOARD OF
OIL, GAS & MINING**BEFORE THE BOARD OF OIL, GAS AND MINING
DEPARTMENT OF NATURAL RESOURCES
STATE OF UTAH**

IN THE MATTER OF THE REQUEST FOR AGENCY ACTION OF PETROGLYPH OPERATING CO., INC. AND III EXPLORATION II LP FOR AN ORDER VACATING THE ORDER ENTERED IN CAUSE NO. 139-54 ESTABLISHING 320 ACRE DRILLING AND SPACING UNITS IN THE UPPER WASATCH FORMATION AS IT PERTAINS TO ALL OF THE LANDS COVERED BY SAID ORDER WITH THE EXCEPTION OF THE SE $\frac{1}{4}$, NE $\frac{1}{4}$ SW $\frac{1}{4}$ AND S $\frac{1}{2}$ SW $\frac{1}{4}$ OF SECTION 9 WITHIN TOWNSHIP 4 SOUTH, RANGE 4 WEST, USM AND TO MODIFY UTAH ADMIN. CODE R649-3-2(1), R649-3-10 AND R649-3-11(1) AND (2), FOR CERTAIN LANDS WITHIN SECTIONS 7, 8, 10 AND 15-18 IN TOWNSHIP 4 SOUTH, RANGE 4 WEST, USM, DUCHESNE COUNTY, UTAH.

**FINDINGS OF FACT,
CONCLUSIONS OF LAW,
AND ORDER****Docket No. 2013-019****Cause No. 139-107**

This cause was heard before the Utah Board of Oil, Gas and Mining (the "Board") on Wednesday August 28, 2013, at approximately 9:00 a.m. in the auditorium of the Utah Department of Natural Resources, 1594 West North Temple, Salt Lake City, Utah. The following Board members were present and participated in the hearing: Ruland J. Gill, Jr., Susan S. Davis, Chris D. Hansen, Kelly L. Payne, Carl F. Kendell, and Michael Brown. Assistant Attorney General, Michael S. Johnson, represented the Board.

Testifying on behalf of Petitioners Petroglyph Operating Co., Inc. ("Petroglyph") and III Exploration II LP ("III Exploration") (each individually a "Petitioner" and collectively "Petitioners") was Paul R. Powell, President of Petroglyph Energy, Inc.,

General Partner of Petitioner III Exploration; Michael L. Hackney, Senior Geologist with Petroglyph; and James L. Baird, Petroleum Engineer and Managing Senior Vice President of Ryder Scott Company. A. John Davis of Holland & Hart, LLP appeared as counsel for Petitioners.

Attending and participating on behalf of the Division of Oil, Gas and Mining (the “Division”) was Dustin Doucet, Petroleum Engineer. Assistant Attorney General, Kassidy J. Wallin, represented the Division.

The Board, having considered the testimony presented and the exhibits received into evidence at the hearing, enters the following:

FINDINGS OF FACT

1. Petitioner III Exploration is an Idaho limited partnership in good standing with its principal place of business in Boise, Idaho. Petitioner Petroglyph is a Kansas Corporation in good standing with its principal place of business in Boise, Idaho. Petitioners are qualified to do business in Utah and are fully and appropriately bonded with all Federal and State of Utah agencies. Petroglyph and III Exploration are affiliated companies.

2. The Request for Agency Action (the “Request”), was filed on June 17, 2013, pursuant to the Order Granting Leave to File Untimely Request for Agency Action dated June 24, 2013. The Request was amended by the Amended Request for Agency

Action (the “Amended Request”), filed on July 26, 2013. The Amended Request covers the following lands:

Township 4 South, Range 4 West, USM

Section 7: Lots 1-7, S $\frac{1}{2}$ NE $\frac{1}{4}$, SE $\frac{1}{4}$ NW $\frac{1}{4}$,
E $\frac{1}{2}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$ (All)
Section 8: All
Section 10: S $\frac{1}{2}$
Section 15: N $\frac{1}{2}$
Section 16: All
Section 17: All
Section 18: Lots 1-4, E $\frac{1}{2}$, E $\frac{1}{2}$ W $\frac{1}{2}$ (All)

(containing 3,830.06 acres)

Hereinafter, the “Subject Lands.”

3. The oil and gas estate in the Subject Lands is owned by the United States of America in trust for the Ute Indian Tribe. All of the oil and gas interest underlying the Subject Lands is leased under a single lease, Ute Tribal Lease I-109-IND-5351, in which Petitioner III Exploration owns 100% of the working interest.

4. A spacing order was previously entered by the Board in Cause No. 139-54 on December 4, 1986, establishing 320 acre drilling and spacing units for the Upper Wasatch Formation (as defined therein) covering the Subject Lands, among other lands.

5. There are currently 16 wells located within the Subject Lands. These wells, their location and their production status are as follows:

(a) Ute Tribal 1-7D, located in the SE $\frac{1}{4}$ SE $\frac{1}{4}$ of Subject Section 7, completed and producing from the Wasatch formation;

(b) Ute Tribal 2-8D, located in the NW $\frac{1}{4}$ SE $\frac{1}{4}$ of Subject Section 8, completed in the Wasatch formation but currently shut-in;

(c) Ute Tribal 1-10D, located in the SW $\frac{1}{4}$ SE $\frac{1}{4}$ of Subject Section 10, completed in the Green River/Wasatch formation but currently shut-in;

(d) Ute Tribal 2-10D, located in the SW $\frac{1}{4}$ SW $\frac{1}{4}$ of Subject Section 10, completed and producing from the Green River formation;

(e) Ute Tribal 4-10D, located in the NE $\frac{1}{4}$ SE $\frac{1}{4}$ of Subject Section 10, completed in the Green River formation but currently shut-in;

(f) Ute Tribal 1-15D, located in the SW $\frac{1}{4}$ N $\frac{1}{4}$ of Subject Section 15, completed in the Green River formation but currently shut-in;

(g) Ute Tribal 2-15D, located in the NW $\frac{1}{4}$ NW $\frac{1}{4}$ of Subject Section 15, completed and producing from the Green River/Wasatch formations;

(h) Duchesne Ute Tribal 3, located in the SW $\frac{1}{4}$ NE $\frac{1}{4}$ of Subject Section 16, completed and producing from the Green River formation;

(i) Duchesne Ute Tribal 5, located in the SW $\frac{1}{4}$ NW $\frac{1}{4}$ of Subject Section 16, completed in the Green River formation but currently shut-in;

(j) Ute Tribal 6-16D, located in the NE $\frac{1}{4}$ NW $\frac{1}{4}$ of Subject Section 16, completed in the Green River/Wasatch formation but currently shut-in;

(k) Ute Tribal 8-16D, located in the NE $\frac{1}{4}$ SE $\frac{1}{4}$ of Subject Section 16, completed in the Green River formation but currently shut-in;

(l) Ute Tribal 7-16D, located in the SE $\frac{1}{4}$ NE $\frac{1}{4}$ of Subject Section 16, completed in the Green River formation but currently shut-in;

(m) Duchesne Ute Tribal 6, located in the SW $\frac{1}{4}$ NE $\frac{1}{4}$ of Subject Section 17, completed and producing in the Green River formation;

(n) Duchesne Ute Tribal 7, located in the SW $\frac{1}{4}$ NW $\frac{1}{4}$ of Subject Section 17, completed in the Green River formation but currently shut-in;

(o) Ute Tribal 4-18D, located in the NW $\frac{1}{4}$ NW $\frac{1}{4}$ of Subject Section 18, completed and producing in the Green River/Wasatch formation; and

(p) Ute Tribal 2-18D, located in the NE $\frac{1}{4}$ SE $\frac{1}{4}$ of Subject Section 18, temporarily abandoned.

6. Vacating this order will result in no change in the allocation of production proceeds to interest owners for the existing wells. Petitioner Petroglyph is the operator of all of the oil and gas wells within the Subject Lands. The geological and engineering data obtained from these wells has shown that:

(a) The sand bodies containing recoverable hydrocarbons are numerous, thinly-bedded and discontinuous;

(b) Many of the productive sands are not contiguous from well to well and do not communicate between wells within several hundred feet of one another; and

(c) Production occurs from multiple, generally low-matrix porosity, thin-bedded sandstones, forming a highly complex series of isolated and discontinuous beds that are randomly distributed vertically over a several thousand-foot interval. Many of the productive beds are separate and distinct and not in communication with each other.

7. The complex and discontinuous nature of the productive sand bodies justify the development of the Wasatch and Green River formations together without the limitations imposed by the spacing order in Cause No. 139-54. Such development will enable Petitioners to drill both vertically and directionally for and commingle production from the Green River and Wasatch formations, target specific depths and zones, and economically recover more reserves without waste.

8. Topographical constraints and existing improvements on the surface will limit the Petitioners' ability to locate wells within the window allowed by the Division's rules. In addition, to reduce surface impacts and more efficiently and economically drill for and produce oil and gas reserves, Petitioners intend to drill multiple wells from a single pad. Accordingly, the Division's location and siting and directional drilling rules, Utah Admin. Code R649-3-2(1), R649-3-10 and R649-3-11(1) and (2), need to be suspended or modified as appropriate to allow for the directional drilling of multiple wells from a single pad.

9. A copy of the Request and the Amended Request was sent via mail to all affected interest owners in the Subject Lands, including the Bureau of Indian Affairs and State and Vernal Field Offices of the Bureau of Land Management.

10. Notice of the filing of the Request and scheduled hearing was duly published in the Salt Lake Tribune, Deseret Morning News, and the Uintah Basin Standard.

11. The United States Bureau of Land Management, in its trust capacity on behalf of the Ute Indian Tribe, filed a letter with the Board on August 26, 2013, indicating its support for the Amended Request.

12. Mr. Powell, on behalf of Petitioners, testified that the Ute Indian Tribe indicated its verbal support for the Amended Request.

13. The vote of the Board members at the August 28, 2013 hearing in this cause was unanimous in favor of granting the Amended Request.

CONCLUSIONS OF LAW

1. Due and regular notice of the time, place, and purpose of the hearing was properly given in the form and manner as required by law and the rules of the Board and Division to all parties whose legally protected interests are affected by the Amended Request.

2. The Board has jurisdiction of the parties and of the subject matter pursuant to Utah Code Ann. § 40-6-1. *et seq.*

3. Vacating the existing spacing order in Cause No. 139-54 and suspending or modifying Utah Admin. Code R649-3-2(1), R649-3-10 and R649-3-11(1) and (2), as appropriate, will result in consistent and orderly development and the greatest recovery of oil, gas and associated hydrocarbons from the Subject Lands, prevent waste, and

adequately protect the correlative rights of all affected parties. Such relief is just and reasonable under the circumstances.

4. Petitioners have sustained their burden of proof, demonstrated good cause and satisfied all legal requirements for granting the Amended Request.

ORDER

Based upon the foregoing findings of fact and conclusions of law and other evidence of record, the Board orders that:

1. The Amended Request in this Cause is granted.
2. The Order in Cause No. 139-54 is vacated insofar as it covers the Subject Lands.
3. Utah Admin. Code R649-3-2(1), R649-3-10, and R649-3-11(1) and (2) are hereby modified to allow the drilling of multiple wells from a single pad up to a total of 16 vertical, horizontal, or directional wells in combination, per section, provided that:
 - (a) No future wells, including any portion of the wellbore of a directionally drilled well, shall be drilled closer than 460 feet to the exterior boundary of the Subject Lands without obtaining an exception location from the Division pursuant to Utah Admin. Code R649-3-3; and

(b) No well shall be completed less than 920 feet from any existing well completed and capable of and production of oil and gas from the same pool.

4. The Board has considered and decided this matter as a formal adjudication, pursuant to the Utah Administrative Procedures Act, Utah Code Ann. §§ 63G-4-204 through 208, and of the Rules of Practice and Procedure before the Board of Oil, Gas and Mining, Utah Admin. Code R641.

5. This order is based exclusively upon evidence of record in this proceeding or on facts officially noted, and constitutes the signed written order stating the Board's decision and the reasons for the decision, as required by the Utah Administrative Procedures Act, Utah Code Ann. § 63G-4-208, and the Rules of Practice and Procedure before the Board of Oil, Gas and Mining, Utah Admin. Code R641-109; and constitutes a final agency action as defined in the Utah Administrative Procedures Act and Board rules.

6. **Notice of Right of Judicial Review by the Supreme Court of the State of Utah.** As required by Utah Code Ann. § 63-G-4-208(e) through (g), the Board hereby notifies all parties to this proceeding that they have the right to seek judicial review of this order by filing an appeal with the Supreme Court of the State of Utah within 30 days after the date this order is entered. Utah Code Ann. § 63G-4-401(3)(a) and 403.

7. **Notice of Right to Petition for Reconsideration.** As an alternative, but not as a prerequisite to judicial review, the Board hereby notifies all parties to this

proceeding that they may apply for reconsideration of this order. Utah Code Ann. § 63G-

4-302. The Utah Administrative Procedures Act provides:

(1)(a) Within 20 days after the date that an order is issued for which review by the agency or by a superior agency under Section 63-46b-12 is unavailable, and if the order would otherwise constitute final agency action, any party may file a written request for reconsideration with the agency, stating the specific grounds upon which relief is requested.

(b) Unless otherwise provided by statute, the filing of the request is not a prerequisite for seeking judicial review of the order.

(2) The request for reconsideration shall be filed with the agency and one copy shall be sent by mail to each party by the person making the request.

(3)(a) The agency head, or a person designated for that purpose, shall issue a written order granting the request or denying the request.

(b) If the agency head or the person designated for that purpose does not issue an order within 20 days after the filing of the request, the request for reconsideration shall be considered to be denied. *Id.*

The Rules of Practice and Procedure before the Board of Oil, Gas and Mining entitled "Rehearing and Modification of Existing Orders" state:

Any person affected by a final order or decision of the Board may file a petition for rehearing. Unless otherwise provided, a petition for rehearing must be filed no later than the 10th day of the month following the date of signing of the final order or decision for which the rehearing is sought. A copy of such petition will be served on each other party to the proceeding no later than the 15th day of that month. Utah Admin. Code R641-110-100.

The Board hereby rules that should there be any conflict between the deadlines provided in the Utah Administrative Procedures Act and the Rules of Practice and Procedure before the Board of Oil, Gas and Mining, the later of the two deadlines shall be

available to any party moving to rehear this matter. If the Board later denies a timely petition for rehearing, the aggrieved party may seek judicial review of the order by perfecting an appeal with the Utah Supreme Court within 30 days thereafter.

8. The Board retains exclusive and continuing jurisdiction of all matters covered by this order and of all parties affected thereby; and specifically, the Board retains and reserves exclusive and continuing jurisdiction to make further orders as appropriate and authorized by statute and applicable regulations.

9. The authorized Board Member's signature on a facsimile copy of this order shall be deemed the equivalent of a signed original for all purposes.

DATED this 23rd day of October, 2013.

STATE OF UTAH
BOARD OF OIL, GAS AND MINING

By: 

CERTIFICATE OF SERVICE

The undersigned hereby certifies that on this 30th day of October, 2013, a true and correct copy of the foregoing **FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER** for Docket No. 2013-019, Cause No. 139-107 was mailed via email, or first class mail, postage prepaid, to the following:

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